

CHINA

CHINA - MERCHANT SHIPPING

A. POLICIES

1. It appears that China's policy with regard to post-war merchant shipping will call for: (a) replacement of tonnage lost during the wars; (b) protection of the coastal fleet by exclusion of foreign shipping from coastal operations; and (c) development of a small fleet for world-wide operations. In implementation of this policy, China will continue its traditional subsidies to shipping. Policy will be largely determined by the state. Vested interests, however, strongly influence government shipping policy. Quasi government-owned companies have in fact come under the control of important individuals. (The China Merchants Steam Navigation Company is one such powerful semi-autonomous body.)
2. Political considerations strongly influence Chinese shipping policy. They explain China's determination: (a) to obtain a token share in trans-oceanic shipping; (b) to replace Japan and the UK in Near Seas trade; and (c) to reserve coastal traffic exclusively to Chinese vessels. Military considerations will perforce affect Chinese shipping policy as long as the Civil War continues. Control of northern ports enables the National Government to move war materiel and military personnel by sea into organized base areas.
3. Subsidies are currently granted to shipping, including certain privately-owned companies which carry government cargo or personnel, chiefly military. The government thus supports the development of shipping facilities to the extent of its limited resources.
4. While the Chinese Government desires to develop greater ship-building facilities, little has been accomplished to date. There is no objection to the use of foreign built ships, as evidenced by the considerable number of vessels purchased abroad by the government and by subsidized private interests. The chief obstacle to this program is the government's meager foreign exchange position. Foreign labor is not generally wanted: it is sought only when Chinese technicians are not available.
5. China has concluded no international shipping agreements other than those inherent in or incidental to the provisions of existing commercial treaties.
6. Chinese civil air and merchant shipping policies are both administered by the Minister of Communications and are thus subject to his coordination. It is Chinese policy to exclude foreign ships and airplanes from the benefits of cabotage, local service being reserved to predominantly nationally-owned and operated facilities. China limits foreign shipping lines to strictly international traffic by restricting the ports of call, as well as the kind of passengers and freight. These restrictive policies reflect the determination of the Chinese to support their own transportation interests in every possible way.

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7. Currently, there is no joint ownership of shipping and air interests.

8. ORGANIZATION

1. All forms of transportation, including civil aviation, are the responsibility of the Ministry of Communications.
2. The Ministry of Communications has delegated merchant shipping responsibilities to its Department of Navigation and Civil Aviation. According to Article IX of the organic law, the Department of Navigation and Civil Aviation is charged with the following matters pertaining to merchant shipping:
 - (a) planning, constructing and equipping all navigation facilities;
 - (b) control and operation of all navigation facilities;
 - (c) all other matters relating to navigation;
 - (d) supervision of shipping facilities, both publicly and privately owned;
 - (e) settlement of all maritime affairs;
 - (f) matters concerning all ship and operating personnel;
 - (g) construction and operation of harbor installations; and

Within the above framework, the department supervises such important companies and administrations as the China Merchants Steam Navigation Company, Ltd., the Commission on Shanghai Harbor Administration and Adjustments, the Directorate General of Ports, etc.

3. There is no direct relationship between the Departments of the Ministry of Communications, except through whatever over-all coordination may evolve from consultative action among the responsible officials for the four forms of transport, the Minister and the two vice-Ministers. The highest level of coordination for policy and planning is the Executive Yuan - roughly comparable to the US Cabinet. In most matters affecting the national interest, the Ministry of Communications is required to obtain the approval of the Executive Yuan. The Minister of Communications discusses with other Ministries any problems affecting their interests, but the government usually supports the Minister of Communications in problems primarily within his jurisdiction.
4. In 1930, the government took responsibility for shipping away from the Maritime Customs and placed it under the Ministry of Communications. At the same time, more direct government control of China's shipping was established than had been previously

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exercised. While no major reorganizations of China's merchant shipping agencies appear imminent, it was reported recently that control of pilotage affairs has been transferred from the Maritime Customs to the Department of Navigation and Civil Aviation.

5. The Ministry of Communications is headed by US and German-trained General Yui Tse-wei, who is unquestionably interested in improving the efficiency of China's merchant shipping establishment. His efforts are compromised, however, by a serious lack of vessels, inadequate facilities for their efficient operation and the selfish attitudes of various pressure groups. For example, vested interests such as the China Merchants Steam Navigation Company, Ltd., have been able to prevent foreign carriers from engaging in traffic from overseas ports to Yangtze river ports. In spite of China's nationalistic attitude toward foreign interests, the Chinese Government, wishing to bolster the merchant marine, recently announced that steamship lines owned jointly by Chinese and foreigners will be permitted to operate in local territorial waters, provided, however, that Chinese nationals hold a two-thirds interest in the capitalization and directorship. The Ten Year Plan, moreover, originally sponsored by Sun-Yat-sen and still favored by Chiang Kai-shek, calls for: (a) an increase in port capacity of 100 million tons of cargo annually; (b) a merchant fleet of 3 million tons; and (c) 18,000 kms of rivers navigable to power vessels. Unless a radical change in China's capabilities occurs, however, the above objectives are likely to remain indefinitely no more than an expression of the country's aspirations.

C. ADMINISTRATION

1. Plans for new routes and facilities originate in Sections and Departments of the Ministry. They are discussed at various levels, and if approved by the Ministry are submitted to the Executive Yuan which, after weighing the pressures exerted by political and other groups, makes the final decisions.
2. Since Chinese merchant shipping does not engage in overseas operations to any appreciable degree, Chinese shipping does not participate in international rate conferences, and the establishment of ocean rates for Chinese vessels is entirely academic. Rates for coastal and river shipping, on the other hand, are subject to government approval. The companies are permitted to negotiate conference rates, submitting them to the Ministry of Communications. After consideration, the Ministry forwards rate proposals to the Executive Yuan for final approval. In practice, the Executive Yuan appears to believe that low freight rates act as a deterrent to the inflationary price trend, and rate increases have therefore lagged behind costs. The result of this policy is to burden the national budget with subsidies, while protecting the economy from increased costs.
3. It can hardly be said that competition is fostered in China. Shipping and other transportation facilities are so scant that competition between shipping companies or between the media of transportation is largely an academic issue. The combination of

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economic conditions and government control measures has in fact effectively restricted competition. The US and UK, moreover, have protested the monopolist practices of the government-backed China Merchants Steam Navigation Company, Ltd., in extracting exorbitant lighterage costs for unloading foreign carriers at the Taku Bar. These methods, and other abuses, are designed to discourage foreign flag vessels, and thus tend to restrict competition. China does not participate in international pools or other shipping agreements.

4. Detailed regulations are in effect governing inspection of equipment, choice of personnel, and investigation of marine accidents. While the Ministry of Communications initiates such regulations, all major regulations are passed upon by the Executive Yuan. Statutory regulations governing navigation (the Code of Maritime Law) are voted by the Legislative Yuan and the State Council.
5. All engineers and pilots must be licensed by the government, based on written and competency tests. The requirements are high in comparison with airline pilot requirements.
6. Detailed reports on tonnage, tariffs, revenues, personnel, inspections and accidents are supplied to the Department of Navigation and Civil Aviation of the Ministry of Communications.

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